HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Peterborough CMA

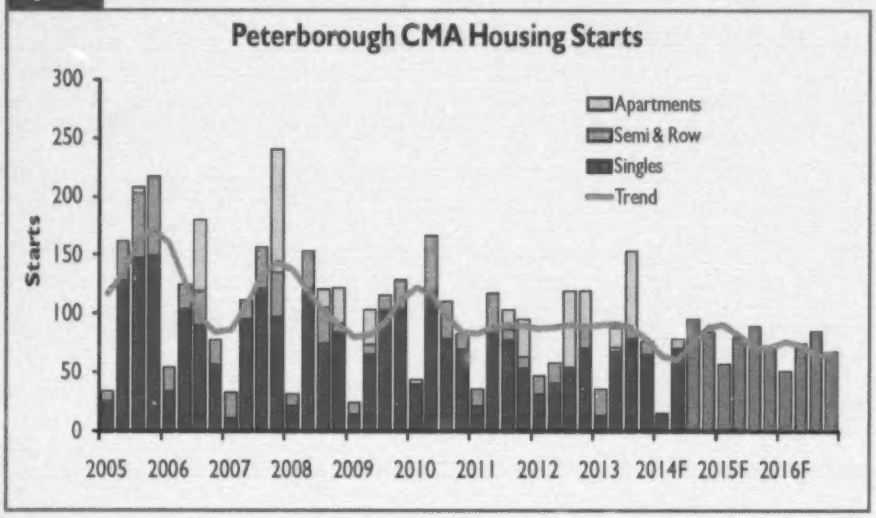
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2014

Highlights

- New home construction to increase in 2015 and to stabilize the year after.
- Existing home sales to continue upward trend.
- Balanced market conditions will lead to modest growth in resale prices through 2015 and 2016.

Figure 1



Source: CMHC (Starts and Completions Survey)

The forecasts included in this document are based on information available as of October 22, 2014.

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New Home Market: Total Housing Starts to Rebound

Total housing starts in Peterborough Census Metropolitan Area (CMA) will decline in 2014 but are expected to trend higher in 2015. The decline in 2014 will occur due to lower levels of multi-unit home construction. Only two semi-detached homes and 15 rows were started in the first eight months of 2014. During the same period last year 118 multi-unit dwellings were started.

The high rental vacancy rate in October 2013 contributed to the decline in rental construction this year. In the first eight months of 2014, there were no rental starts, a change from an average of 44 units a year during the last six years.

Another factor that contributed to the decrease in starts of multi-unit dwellings was the elevated numbers of completed and unabsorbed homes. They reached 22 units at the end of August compared to 2 units at the end of 2013. As unabsorbed inventories work their way through the market, we will see starts pick up for the lower-priced low-rise homes. Over the next two years, developers' focus will be re-directed towards semi-detached and row housing, since it is less expensive than single-detached dwellings. It is expected that in 2015 and 2016 multi-unit construction will exceed 2014 levels.

Single-detached starts, which historically make up more than two thirds of total starts, can be expected to continue to dominate the marketplace in 2015 and 2016. The number of single-detached starts in 2015 will be in line with the 2014 results as Peterborough is a relatively inexpensive market, when compared to other markets neighbouring the Greater Toronto Area (GTA). Single-detached dwellings are a popular choice among middle-aged people, who are already retired or near retirement from areas such as Toronto and Durham Region.

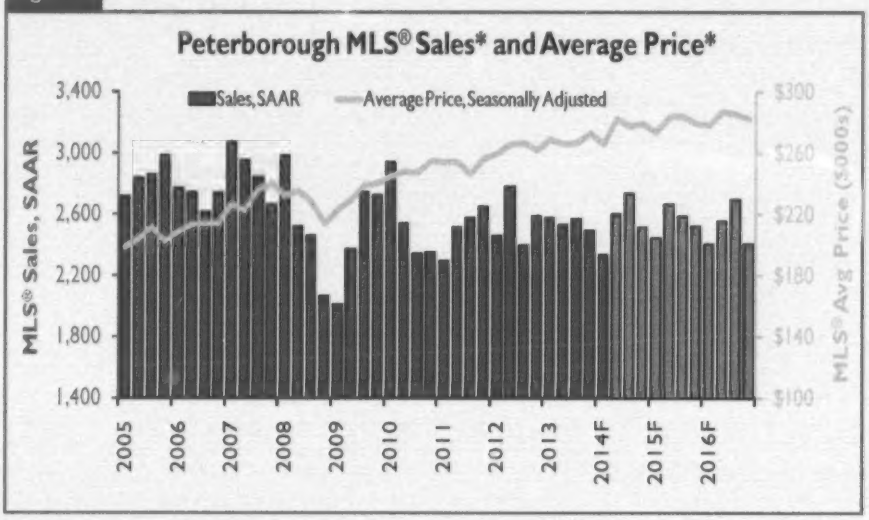
Relatively favourable development charges, improving economic conditions and steady in-migration of homebuyers from the City of Toronto and Durham Region will support residential construction in the Peterborough CMA. In addition, housing starts will benefit from existing home sales, which will continue an upward trend next year. During the past two census periods, approximately 470 people every year have been added to the Peterborough CMA population due to migration. Almost all of these migrants came from within Ontario. Over the forecast period, the population in Peterborough will continue to grow because of migration.

Existing Home Market: Activity to Strengthen Later in 2015

After a slow start in the first quarter of 2014, sales of existing homes in the Peterborough CMA posted strength in the second and third quarters. The recovery is sufficient to keep annual sales in 2014 similar to what they were in 2013. Sales in the fourth quarter of 2014 and the first quarter of 2015 will ease in response to higher prices and previous weakness in employment and incomes. By the second and third quarter of 2015, sales will strengthen in response to improving job growth and people looking to beat higher prices and mortgage rates later in 2015. Sales will soften slightly in 2016, yet remain within 2,500 levels.

The breakdown of MLS® listed sales by price range shows that during the first eight months of 2014 there were more homes sold at the higher price

Figure 2



Source: CMHC adapted from CREA (MLS®)
* Both sales and prices are seasonally adjusted. In addition, quarterly sales data are multiplied by 4 to show an annual rate.
MLS® is a registered trademark of the Canadian Real Estate Association

range, which pushed the average MLS® price above 2013 level. High home prices have encouraged owners to list their homes for sale. An increase of two per cent in listings in 2014 will bolster the inventory of homes in the marketplace. In 2015, listings will remain at a high level of about 5,000 units. As a result, the seasonally adjusted sales to new listings ratio, which measures the balance between demand and supply, will decline slightly, but indicates that Peterborough's resale market remains balanced over the forecast horizon.

The year-to-date average price of a resale home increased by three per cent in 2014 and is forecast to increase by 1.4 per cent in 2015 and by 1.1 per cent in 2016. As inventories continue to grow, expect price growth to slow and to converge closer to income growth. Declining mortgage rates have allowed price growth to exceed income growth for some time but with mortgage rates stabilizing and beginning to move up, that trend will change and prices will tend to increase at a rate closer to income growth.

Rental Market: Vacancy Rate will Inch Up

The vacancy rate for privately-initiated rental apartment buildings with three or more units in the Peterborough Census Metropolitan Area (CMA) is expected to increase from 4.8 percent in 2013 to 5.1 and 5.4 per cent in 2014 and 2015 respectively.

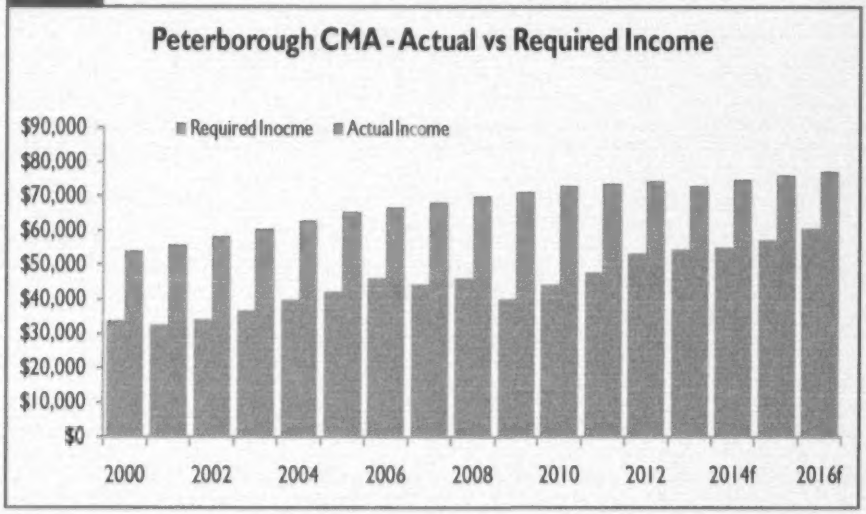
Notable factors putting upward pressure on Peterborough's vacancy rate include: weakened job prospects for young adults (particularly those between the ages 15 and 24), an increase in rental supply and elevated numbers of condominium completions (both rows and apartments).

Young adults moving out of their parents' homes into rental accommodation are a major source of rental demand. But with the unemployment rate for 15 to 24 year-olds in Peterborough above the rate for Ontario for the last three years, young adults have less income. Many are staying longer in their parental homes.

More purpose-built rental apartment units have been completed in recent years. The number of rental apartments completed in 2014 was three times the number completed in 2013. Also, since the beginning of 2013, 122 condominium units (both row and apartments) were completed in the CMA. Condominium units affect the rental market in two ways. Their prices tend to be the lowest ownership housing option in a market, and consequently they are attractive to first-time buyers moving out of rental accommodation. Moreover, low mortgage rates combined with the relatively low prices likely encouraged some investors to purchase condominiums with the intention of renting them out. With more units coming to completion, the supply of rental accommodation will grow. As of August 2014, there were 84 rental apartments and about 13 condominium units under construction.

With more units coming to the market, rent increases will continue to be modest. Combined with a lower Residential Tenancies Act (RTA) allowable guideline increase of 0.8 per cent in 2014 and 1.6 per cent in 2015 rent will grow at a slow rate. The monthly rent for two-bedroom apartment is expected to increase by

Figure 3



Source: CMHC, Statistics Canada, CREA
Required Income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

about one per cent each year in 2014 and 2015.

Economic Trends: Modest Employment Gains Through 2015

After an almost seven per cent drop last year, employment in Peterborough has been gathering strength and is expected to show modest gains this year and next. Job growth of nearly five per cent is forecast for this year followed by an increase of almost one per cent in 2015. Some sectors of the local economy will recover quicker, others will temper growth in employment next year.

A new call centre, which is opening in Peterborough City on Nov. 1, will bring 400 new full time jobs to the City's downtown core. About $5.2 million is being invested to set up the call centre. It is expected that the centre will generate approximately $14 million of economic activity in the community each year. Other examples of job creation are publicly-funded projects to upgrade public infrastructure. They include the Thompson Bay Dam reconstruction and the ongoing Otonabee Dam Deck rehabilitation.

The improving labour market conditions will have a positive impact on incomes. After a two per cent decline in 2013, average annual earnings are expected to recover at 2.4 per cent and 1.9 per cent in 2014 and 2015 respectively. This is good news as it will cushion some of the impact of rising mortgage rates and rising home prices. It will help to keep ownership and rental costs within an affordable range for many households.

On the other hand, slower growth in consumer spending can be expected which is largely impacted by housing market activity. As the housing market – new and resale - moderates, it will impact spending on a range of items associated with moving into a new home. It will lead to less hiring in trades and construction. It can also have a broader effect on consumption as weaker price growth influences homeowner perception of wealth. Thus, the growth in employment might slow within the real estate, financial and professional services sector.

Expect employment growth to slow in 2016, as more companies in Peterborough follow the provincial trend of boosting output through productivity enhancements and less through job growth. Also, the slowdown in MLS® sales and lower housing starts in 2016 will slow employment growth that year.

Mortgage Rate Outlook

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Mortgage rates		
1 Year	Q3 2014	3.14
	Change from Q3 2013	0.00
	2014 (F)	3.00 - 3.25
	2015 (F)	3.20 - 4.00
	2016 (F)	3.70 - 4.60
5 Year	Q3 2014	4.79
	Change from Q3 2013	-0.48
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00
	2016 (F)	5.55 - 6.45

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	Gains in full time jobs and in the labour force will continue to support housing demand.
Income	Average incomes will recover at 2.4 per cent and 1.9 per cent in 2014 and 2015 respectively. Moderate growth is expected due to the modest pace of economic growth in Canada and globally.
Population	A steady albeit low rate of in-migration will stimulate demand for all types of housing over the forecast horizon.
Resale Market	Balanced market conditions are expected to prevail over the forecast horizon.
Vacancy Rates[1]	Average vacancy rates are expected to increase slightly due to weakened job prospects for young adults (particularly those between the ages 15 and 24) and increasing supply of rental accommodation.

Forecast Risks

This outlook is subject to some risks, including:

- Mortgage interest rates are still near their historical low. Should mortgage interest rates rise sooner or faster than expected by potential buyers and existing mortgage holders, this could lead to a lower level of activity in Canada's housing market and generate some financial risks for the more heavily indebted homeowner households in the medium to longer term.
- If unemployment was to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.
- Growth in Emerging Market Economies (EMEs) could disappoint. In China, recent indicators point to a sharp slowdown in the housing sector. Beyond the direct effects of lower housing activity, this could also result in a greater-than-anticipated slowdown in credit growth and an extended period of deleveraging that would weigh on growth. There is also a risk that the weakness in other EMEs will persist longer than currently expected. In particular, political uncertainty could continue, undermining business confidence and delaying progress on economic reforms.
- A stronger than expected U.S. economic growth could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.

[1] Rental vacancy rates are for purpose-built rental apartments and do not cover condominium units that are offered up for rent by owners on the secondary rental market.

Forecast Summary Peterborough CMA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	239	197	224	210	-6.3	210	0.0	200	-4.8
Multiples	112	146	130	50	-61.5	80	60.0	80	0.0
Semi-Detached	6	2	0	4	n/a	5	25.0	5	0.0
Row/Townhouse	58	50	48	30	-37.5	40	33.3	40	0.0
Apartments	48	94	82	16	-80.5	35	118.8	35	0.0
Starts - Total	351	343	354	260	-26.6	290	11.5	280	-3.4
Average Price ($):									
Single-Detached	330,749	327,943	318,141	320,000	0.6	322,000	0.6	328,000	1.9
Median Price ($):									
Single-Detached	289,990	293,990	299,000	306,000	2.3	310,500	1.5	315,000	1.4
New Housing Price Index (% chg. Ontario)	3.6	4.1	2.1	n/a	-	n/a	-	n/a	-
Resale Market									
MLS® Sales	2,507	2,553	2,539	2,550	0.4	2,550	0.0	2,500	-2.0
MLS® New Listings	5,043	4,843	4,887	4,950	1.3	5,000	1.0	4,950	-1.0
MLS® Average Price ($)	254,604	264,946	271,161	276,000	1.8	280,000	1.4	283,000	1.1
Rental Market									
October Vacancy Rate (%)	3.5	2.7	4.8	5.1	0.3	5.4	0.3	5.4	0.0
Two-bedroom Average Rent (October) ($)	899	904	915	925	1.1	935	1.1	945	1.1
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	57,700	59,300	55,400	58,000	4.7	58,500	0.9	58,600	0.2
Employment Growth (%)	0.9	2.8	-6.6	4.7	-	0.9	-	0.2	-
Unemployment rate (%)	9.4	8.2	8.6	8.3	-	8.0	-	7.8	-
Net Migration	145	586	437	450	3.0	480	6.7	510	6.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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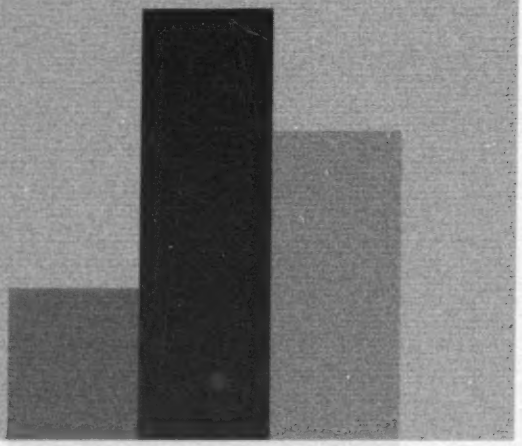

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